The Fiscal Monitor

A Publication of the Department of Finance

Highlights

August 2007: budgetary surplus of $0.9 billion

There was a budgetary surplus of $0.9 billion in August 2007, up $0.4 billion from the $0.5-billion surplus recorded in August 2006. Budgetary revenues were up $1.0 billion, or 5.9 per cent, reflecting strong gains in corporate income tax, goods and services tax (GST) and non-tax revenues. Program expenses increased by $0.7 billion, or 5.1 per cent, due to higher transfer payments and departmental operating expenses. Public debt charges were $0.1 billion lower.

April to August 2007: budgetary surplus of $8.7 billion

For the first five months of the 2007–08 fiscal year, the budgetary surplus is estimated at $8.7 billion, up $1.5 billion from the $7.2-billion surplus reported in the same period of 2006–07. Budgetary revenues increased by $5.9 billion, or 6.3 per cent, driven by both higher income tax revenues and non-tax revenues. Program expenses rose by $4.4 billion, or 6.2 per cent, reflecting increases in transfer payments and operating expenses of departments and agencies, including National Defence. Public debt charges were virtually unchanged.

August 2007

There was a budgetary surplus of $0.9 billion in August 2007, up $0.4 billion from August 2006.

Budgetary revenues increased by $1.0 billion, or 5.9 per cent, to $18.6 billion.

- Personal income tax revenues increased by $0.2 billion, or 2.1 per cent. Starting this month, the adjustments made to cash-based personal income tax receipts—to put these on an accrual basis—are being revised. To ensure comparability, these revisions have been made to the current and prior-year revenue estimates. The change in methodology has raised personal income tax revenues and the year-to-date surplus by $0.4 billion in August 2007 and by $0.5 billion in August 2006. The adjustment in August accounts for the first five months of the fiscal year.
- Corporate income tax revenues rose $0.3 billion, or 13.4 per cent, down from the 25.0-per-cent gain recorded through July.
- Other income tax revenues—withholdings from non-residents—increased by $0.1 billion, or 21.7 per cent.
- Excise taxes and duties were up $0.4 billion, or 9.9 per cent, almost entirely due to a $0.3-billion or 14.8-per-cent gain in GST revenues.

- Employment Insurance (EI) premium revenues decreased by 6.8 per cent, mainly reflecting the decline in the premium rate from $1.87 to $1.80 per $100 of insurable earnings, effective January 1, 2007.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, were up $0.2 billion, or 12.6 per cent. This revenue stream is volatile on a monthly basis, due in part to variations in the timing of transactions from year to year.

Program expenses in August 2007 were $15.1 billion, up $0.7 billion, or 5.1 per cent, from August 2006, reflecting increases in transfer payments and operating expenses of departments and agencies.

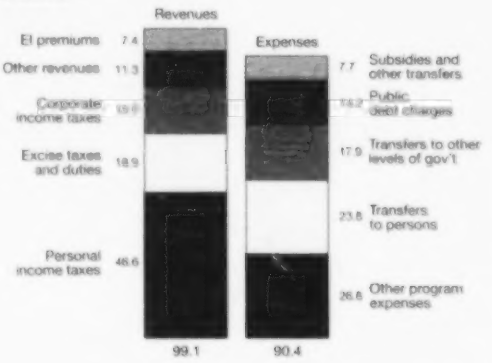
Transfer payments were up $0.6 billion, or 6.3 per cent.

- Major transfers to persons, consisting of elderly, EI and children's benefits, were up $0.1 billion, or 1.8 per cent. Elderly benefits increased 4.4 per cent while EI benefits declined 2.5 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), were up 0.3 per cent.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up $0.1 billion, or 1.7 per cent.
- Subsidies and other transfers increased by $0.4 billion, or 43.3 per cent.

Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased by $0.1 billion, or 2.9 per cent.

Public debt charges decreased by $0.1 billion.

Revenues and expenses
(April to August 2007)



April to August 2007

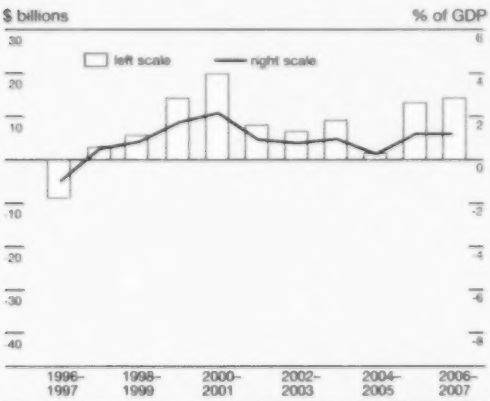
Through the first five months of the 2007–08 fiscal year, there was a budgetary surplus of $8.7 billion, up $1.5 billion from the $7.2-billion surplus reported in the same period of 2006–07.

On a year-over-year basis, budgetary revenues increased by $5.9 billion, or 6.3 per cent, to $99.1 billion.

- Personal income tax revenues rose $1.5 billion, or 3.2 per cent, reflecting growth in employment and wages and salaries.
- Corporate income tax revenues were up $2.8 billion, or 23.2 per cent. The growth in corporate income tax revenues to date reflects ongoing profitability of corporations. However, part of the exceptionally strong growth experienced to date is due to remittance patterns last year. Last year, corporations on average were underpaying their tax liabilities during the first part of the fiscal year, but then made up this difference with significant settlement payments in February and March 2007. As such, the high growth rate of corporate receipts recorded over the April to August period is expected to dissipate over the final three months of this fiscal year.
- Other income tax revenues rose 14.3 per cent, reflecting the ongoing strength in corporate profitability.
- Excise taxes and duties were up $0.1 billion, or 0.5 per cent. Customs import duties rose by $148 million, sales and excise taxes were up $131 million and revenues from the Air Travellers Security Charge increased by $13 million. GST revenues declined $0.2 billion, or 1.5 per cent, reflecting the 1-percentage-point reduction in the GST rate effective July 1, 2006.
- EI premium revenues increased by $0.1 billion, or 1.4 per cent, reflecting gains in employment and wages and salaries, which more than offset the decline in the premium rate from $1.87 to $1.80 per $100 of insurable earnings, effective January 1, 2007.
- Other revenues increased by $1.2 billion, or 14.6 per cent.

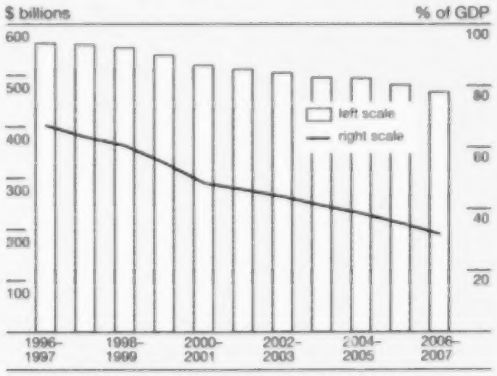
Program expenses in the April to August 2007 period were $76.3 billion, up $4.4 billion, or 6.2 per cent, from the same period of 2006, reflecting an increase in transfer payments and operating expenses of departments and agencies.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Transfer payments increased by $2.5 billion, or 5.4 per cent.

- Major transfers to persons rose by $1.4 billion, or 6.4 per cent. Elderly benefits increased by 4.4 per cent while EI benefits were up 4.1 per cent. Children's benefits were up $0.7 billion, reflecting transfers under the UCCB, which began in July 2006.
- Major transfers to other levels of government were up $0.9 billion, or 5.0 per cent, reflecting legislated increases in the Canada Health Transfer, Canada Social Transfer and Equalization.
- Subsidies and other transfers were up $0.2 billion, or 2.9 per cent.

Other program expenses increased by $1.9 billion, or 7.7 per cent.

Public debt charges were virtually unchanged.

Financial source of $8.3 billion for April to August 2007

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of $8.7 billion and a requirement of $0.4 billion from non-budgetary transactions, there was a net financial source of $8.3 billion in the April to August 2007 period, compared to a net financial source of $4.2 billion in the same period of 2006.

Net financing activities down $19.8 billion

The Government used this net financial source of $8.3 billion and a reduction in its cash balances of $11.4 billion to reduce its market debt by $19.8 billion by the end of August 2007. The reduction in market debt was achieved largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of August stood at $9.8 billion.

Table 1

Summary statement of transactions

	August		April to August	
	2006	2007	2006–07	2007–08
	($ millions)			
Budgetary transactions				
Revenues	17,581	18,611	93,212	99,121
Expenses				
Program expenses	-14,342	-15,071	-71,828	-76,255
Public debt charges	-2,767	-2,629	-14,192	-14,189
Budgetary balance (deficit/surplus)	472	911	7,192	8,677
Non-budgetary transactions	744	654	-3,036	-353
Financial source/requirement	1,216	1,565	4,156	8,324
Net change in financing activities	-1,006	4,849	-17,819	-19,765
Net change in cash balances	210	6,414	-13,663	-11,441
Cash balance at end of period			4,298	9,769

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

Budgetary revenues

	August			April to August		
	2006	2007	Change	2006–07	2007–08	Change
	($ millions)		(%)	($ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	8,683	8,868	2.1	45,100	46,558	3.2
Corporate income tax	1,938	2,197	13.4	12,177	14,998	23.2
Other income tax	419	510	21.7	1,855	2,121	14.3
Total income tax	11,040	11,575	4.8	59,132	63,677	7.7
Excise taxes and duties						
Goods and services tax	2,279	2,616	14.8	13,144	12,945	-1.5
Customs import duties	362	394	8.8	1,484	1,632	10.0
Sales and excise taxes	879	859	-2.3	3,985	4,116	3.3
Air Travellers Security Charge	28	32	14.3	155	168	8.4
Total excise taxes and duties	3,548	3,901	9.9	18,768	18,861	0.5
Total tax revenues	14,588	15,476	6.1	77,900	82,538	6.0
Employment Insurance premiums	1,210	1,128	-6.8	7,312	7,418	1.4
Other revenues	1,783	2,007	12.6	8,000	9,165	14.6
Total budgetary revenues	17,581	18,611	5.9	93,212	99,121	6.3

Note: Totals may not add due to rounding.

Table 3

Budgetary expenses

	August			April to August		
	2006	2007	Change	2006–07	2007–08	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,522	2,632	4.4	12,545	13,093	4.4
Employment Insurance benefits	1,160	1,131	-2.5	5,485	5,708	4.1
Children's benefits	949	952	0.3	4,356	5,021	15.3
Total	4,631	4,715	1.8	22,386	23,822	6.4
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,679	1,779	6.0	8,392	8,895	6.0
Canada Social Transfer	709	734	3.5	3,542	3,917	10.6
Total	2,388	2,513	5.2	11,934	12,812	7.4
Fiscal transfers	1,081	1,324	22.5	5,504	6,010	9.2
Canada's cities and communities	306	0	n/a	306	386	26.1
Early learning and child care	0	0	n/a	650	0	n/a
Alternative Payments for Standing Programs	-261	-262	0.4	-1,305	-1,260	-3.4
Total	3,514	3,575	1.7	17,089	17,948	5.0
Subsidies and other transfers						
Agriculture and Agri-Food	89	129	44.9	399	436	9.3
Foreign Affairs and International Trade	138	100	-27.5	845	715	-15.4
Health	82	33	-59.8	737	817	10.9
Human Resources and Social Development	86	88	2.3	682	671	-1.6
Indian Affairs and Northern Development	355	367	3.4	2,003	2,046	2.1
Industry	224	225	0.4	747	783	4.8
Other	35	504	1,340.0	2,052	2,214	7.9
Total	1,009	1,446	43.3	7,465	7,682	2.9
Total transfer payments	9,156	9,736	6.3	46,940	49,452	5.4
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	118	105	-11.0	595	665	11.8
Canada Mortgage and Housing Corporation	158	142	-10.1	798	758	-5.0
Other	211	296	40.3	1,429	1,649	15.4
Total	487	543	11.5	2,822	3,072	8.9
Defence	1,344	1,416	5.4	6,175	6,536	5.8
All other departments and agencies	3,355	3,376	0.6	15,891	17,195	8.2
Total other program expenses	5,186	5,335	2.9	24,888	26,803	7.7
Total program expenses	14,342	15,071	5.1	71,828	76,255	6.2
Public debt charges	2,767	2,629	-5.0	14,192	14,189	0.0
Total budgetary expenses	17,109	17,700	3.5	86,020	90,444	5.1

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	August		April to August	
	2006	2007	2006–07	2007–08
	($ millions)			
Budgetary balance (deficit/surplus)	472	911	7,192	8,677
Non-budgetary transactions				
Capital investing activities	-114	-251	-413	-1,154
Other investing activities	-47	-72	417	68
Pension and other accounts	1,358	222	1,482	1,855
Other activities				
Accounts payable, receivables, accruals and allowances	-1,625	-167	-7,287	-5,255
Foreign exchange activities	932	651	1,579	2,763
Amortization of tangible capital assets	240	271	1,186	1,370
Total other activities	-453	755	-4,522	-1,122
Total non-budgetary transactions	744	654	-3,036	-353
Net financial source/requirement	1,216	1,565	4,156	8,324

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	August		April to August	
	2006	2007	2006–07	2007–08
	($ millions)			
Net financial source/requirement	1,216	1,565	4,156	8,324
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	3,051	3,745	1,620	1,245
Treasury bills	-2,700	1,300	-13,800	-17,800
Canada Savings Bonds	-77	81	-379	-360
Other	-105	-1	-1,015	-499
Total	169	5,125	-13,574	-17,414
Foreign currency borrowings	-945	223	-3,855	-175
Total	-776	5,348	-17,429	-17,589
Cross-currency swap revaluation	-121	-300	-121	-2,098
Unamortized discounts on debt issues	-102	-167	-223	0
Obligations related to capital leases	-7	-32	-46	-78
Net change in financing activities	-1,006	4,849	-17,819	-19,765
Change in cash balance	210	6,414	-13,663	-11,441

Note: Totals may not add due to rounding.

Table 6

Condensed statement of assets and liabilities

	March 31, 2007	August 31, 2007	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	106,511	94,394	-12,117
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	257,482	258,727	1,245
Treasury bills	134,074	116,274	-17,800
Canada Savings Bonds	15,175	14,815	-360
Other	1,743	1,243	-500
Subtotal	408,474	391,059	-17,415
Payable in foreign currencies	10,372	10,197	-175
Cross-currency swap revaluation account	-1,091	-3,189	-2,098
Unamortized discounts and premiums on market debt	-6,659	-6,659	0
Obligations related to capital leases	3,096	3,019	-78
Total unmatured debt	414,192	394,427	-19,765
Pension and other accounts			
Public sector pensions	134,726	135,838	1,112
Other employee and veteran future benefits	45,123	45,799	676
Other pension and other accounts	5,211	5,277	66
Total pension and other accounts	185,060	186,914	1,854
Total interest-bearing debt	599,252	581,342	-17,911
Total liabilities	705,763	675,735	-30,028
Financial assets			
Cash and accounts receivable	92,586	74,282	-18,304
Foreign exchange accounts	44,178	41,415	-2,763
Loans, investments and advances (net of allowances)	45,094	45,026	-68
Total financial assets	181,858	160,723	-21,135
Net debt	523,905	515,012	-8,893
Non-financial assets	56,637	56,421	-216
Federal debt (accumulated deficit)	467,268	458,591	-8,677

Note: Totals may not add due to rounding.

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